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What Happens When a Community Gains Manufacturing Jobs[1]

Manufacturing is the basis for most economic activity in New England. Development groups in many communities throughout the region recognize this. To stimulate broader interest and assistance in industrial development, they are searching for methods to estimate probable results from increased manufacturing jobs.

The consequences of additional manufacturing employment vary greatly in different communities. Longer-term effects differ from the immediate impact. Results which occurred in one area cannot be applied to other areas. This case study of New London's experience demonstrates that each community must appraise the effects for its own particular economy.

MANY COMMUNITIES throughout New England are striving to secure additional manufacturing jobs. Often those efforts are motivated by the expectation that new manufacturing employment will insure the addition of nonmanufacturing jobs in the same community.

The course of economic development in small geographic areas, however, is seldom uniformly smooth or certain. Changes that might develop after an interval of a few years may be quite different from the immediate developments associated with gains in manufacturing employment. Optimistic expectations based on broad generalization can be severely disappointing. The purpose of this article is to provide additional insight on this problem by presenting a case study of what happens when a community gains new manufacturing jobs.

"Export" vs. "Local" Employment

The United States economy has a well-developed system for the exchange of goods and services. It has a high degree of specialization of activities. Most persons engaged in farming, fishing, mining and manufacturing produce goods which are sold outside the community in which the goods are produced. From the community viewpoint, they are engaged in "export" employment.

On the other hand, a major proportion of persons engaged in the retail and wholesale trade, construction, public utility, local government, transportation, communication, and personal and business service industries serve individuals and firms located within the community or its immediate vicinity. These persons are engaged in "local" employment industries.

It is well recognized that most jobs in the local employment category in the vast majority of communities depend primarily upon activity and jobs in more basic forms of economic activity.

In some areas most export employment is in agriculture or mining. In New England, the majority of jobs that are the basis for a large part of the area's economic activity are in manufacturing concerns. In 1954, 43 per cent of New England's labor force was employed in manufacturing industries, compared to 34 per cent of the country's labor force.

Development groups within New England and elsewhere have recognized the importance of jobs in export industries. They have focused their development efforts largely on attempts to increase manufacturing activities, assuming that a growth in export employment will promptly bring increases in local employment.

The consequences to a community of increased manufacturing employment are extremely complex. It is very

[1] Based on a case study of employment and retail sales changes in New London, Connecticut, conducted by John Korbel, Assistant Professor of Economics at the University of New Hampshire, under a research grant from the Federal Reserve Bank of Boston.

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difficult to predict the over-all impact. Nevertheless, many development agencies present statistical summaries which try to measure in quantitative terms the effects of an increased number of manufacturing jobs.

For example, one development agency states that "one small industry employing 50 persons may: support from 300 to 400 people, require 75 to 100 homes, put 200 children in school, require six teachers, cause the purchase of 100 automobiles, support 10 stores with annual sales of $175,000, enable eight professional people to live in the community, pay about $175,000 annually for transportation, and buy the products of 1,800 acres of land."

Estimates such as this appear to be based upon inadequate consideration of all aspects of the problem. They can be very misleading if applied to different individual communities.

Carefully conducted case studies attempting to determine the economic effects likely to result from an increase in manufacturing employment in a specific area are generally based upon the "employment multiplier" concept. The theory of the employment multiplier is essentially that additional employment in export industries will lead to additional income in the community. When that income is spent it will lead to increased employment in local industries. Employment multiplier studies try to appraise the effects of an increase in export employment upon local employment and other forms of local economic activity.

A study of the employment multiplier in Los Angeles County, for example, analyzed 37 pairs of monthly observations of local and export employment for 1940, 1941, 1946, and the month of September, 1947. It concluded that the employment multiplier for the period as a whole was 1.248. This means that 1.248 additional workers in local employment industries accompanied an increase of one worker in export industries.[2]

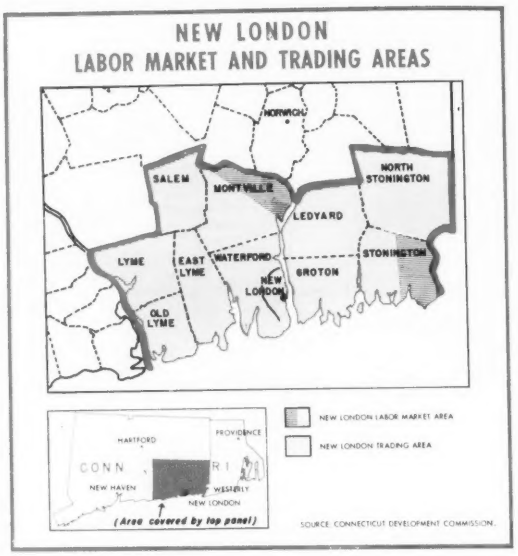
An exhaustive analysis of the Wichita, Kansas, area found that, for the 1940-50 period, "the multiplier relationship becomes 1.4, indicating the number of local employees added for each additional worker supplying outside markets."[3]

The value of these carefully determined relationships as predictive guides is severely limited by the fact that the relationships vary substantially during different time periods. According to the Wichita study, "the multiplier concept appears to be of greatest value over fairly long periods of years and can be applied to shorter periods only with reservation." This study found a multiplier value of only 0.2 over the two-year period commencing in March, 1950, and over the four-year period beginning in March, 1948.

Unfortunately, when an employment multiplier has been determined for a particular area during a certain period, it is frequently applied to other areas and for different time periods in other areas without adjustment to take varying conditions into account. Since identical sets of conditions never occur in different areas, the employment multiplier for one area has little predictive value for other areas.

[2]George H. Hildebrand and Arthur Mace, Jr., "The Employment Multiplier in an Expanding Industrial Market: Los Angeles County, 1940-47," *The Review of Economics and Statistics*, Vol. XXXII, 1950, pp. 241-249.

[3]"The Employment Multiplier in Wichita," *Monthly Review*, Federal Reserve Bank of Kansas City, Sept. 30, 1952, pp. 1-7.



New London — A Case Study

A recent study of employment in the New London, Connecticut, labor market area illustrates the hazards involved in attempting to apply an employment multiplier calculated for one area to another area.

The city of New London is a principal trading center for ten surrounding towns. It is located over 40 miles from the nearest larger city, Hartford, Connecticut, and about 50 miles from both New Haven, Connecticut, and Providence, Rhode Island. Greater New London consists of the city of New London, together with the adjoining towns of Groton and Waterford. These communities had a population of 65,100 in 1952. They constitute the hub of what has been classified by the Connecticut Department of Labor as the New London labor market area, shown in an accompanying map. The Department of Labor has found that the principal labor supply for New London and Groton comes from the 11 towns which comprise the labor market area. This area had a population of about 96,880 in 1953.

The New London area depends heavily upon the Electric Boat Division of General Dynamics Corporation, located in Groton, for manufacturing employment. Most of this concern's activity is associated with military contracts. Because of this, its employment has fluctuated violently.

During the World War II period, about three-fourths of all manufacturing employment in the labor market area was at the Electric Boat Company. Employment at this concern rose from 5,098 in 1941 to 12,248 in 1944 and then dropped to a low of 1,560 in 1950. The Electric Boat Company accounted for about one-fifth of all manufacturing employment in the area during the 1947-1950 period. Since 1950, employment at this concern, again supported by military expenditures, has risen rapidly, reaching a level of 7,277 in 1953. Because of the growth of other manufacturing concerns, the area no longer depends upon the Electric Boat Company for such a large proportion of its manufacturing employ-

ment as during World War II. But this concern still dominates the labor market area. It accounted for about one-third of all manufacturing employment in 1951 and for nearly one-half in 1953.

The Electric Boat Company is the only employer in the area drawing an appreciable part of its work force from outside the New London labor market area. But it estimates that since the end of World War II less than 15 per cent of its employees have resided outside the labor market area. Wages paid in the New London area, therefore, tend to be paid to residents of the area.

Most of the wages received by residents of the New London labor market area are also spent within this area. The boundaries of the New London trading area, as determined by the Connecticut Development Commission on the basis of the U. S. Census of Retail Trade, nearly coincide with the labor market area. Exceptions are parts of two towns on the margin of the labor market area, Montville and Stonington, as shown in the accompanying map.

The pattern of retail sales in Greater New London closely matches the state pattern. This also indicates that the New London trading area coincides quite closely with the New London labor market area. If New London were a satellite town, shopping goods such as apparel and furniture would constitute a smaller percentage of total sales in the area than in the state. On the other hand, if income from a larger surrounding area than the New London labor market area were spent in New London, those categories of sales would tend to exceed the state proportions. The absence of both of these extremes strengthens the assumption that most income received by persons living in the New London labor market area is also spent in this area and little income received by persons residing outside the area is spent in New London.

Manufacturing Mainly for Export

Because of the unusual nature of the New London area, manufacturing employment can be considered as largely serving external markets and nonmanufacturing employment as serving mainly the local market. The doubling of manufacturing employment from 1950 to 1953 in New London was due largely to expansion at the Electric Boat Company as it undertook construction of nuclear-powered submarines. Workers at that concern clearly belong in the export employment category. Some employment in other manufacturing firms may be attributed to local consumption, but it is not likely to be an appreciable amount. The area has a relatively small population and its manufacturing is concentrated in a few industries which are not oriented particularly to local markets.

Few workers in the trade and service industries in New London serve persons living outside the area. Thus most nonmanufacturing employment in the area can be assigned to the local employment category. The only appreciable exception arises during the summer because of summer residents and tourists coming into the area. But the influence of jobs in the vacation industry can be reduced by considering only first quarter employment figures.

Manufacturing employment in the New London area doubled between March, 1950, and March, 1953. Yet the addition of 7,743 manufacturing jobs stimulated a rise of only 1,029 nonmanufacturing jobs over the same period. This was not nearly as large a rise in local employment as would be expected on the basis of estimates made for other areas. A number of factors help explain New London's experience.

New London's employment experience between 1950 and 1953 reflected its earlier employment history. In particular, it reflected an imbalance in the labor force at the time that manufacturing expansion started. That imbalance arose partly from the over-correction of wartime labor shortages in nonmanufacturing employment.

An accompanying chart shows that manufacturing employment in the area rose from 6,470 in 1941 to 19,460 in 1944. But during the same years, nonmanufacturing employment declined by 2,480. Clearly the manpower requirements of manufacturing forced some contraction of nonmanufacturing employment.

In the immediate postwar period the trends were reversed. Manufacturing employment declined sharply. Yet local employment rose by 3,171 between 1945 and 1948. In part, that growth represents a correction of the previous imbalance. Perhaps the restoration of balance between the two types of employment between 1945 and 1948 overshot the mark, resulting in some excess employment in industries serving the local market. It also probably represents some employment in nonmanufacturing jobs in preference to idleness as manufacturing workers were laid off. As manufacturing employment expanded after 1950, its first effect was to offer some correction for this imbalance.

Conditioned response as a result of experience may also help explain the relatively small growth in local employment in New London since 1950. Trade and service establishments in the area had seen manufacturing employment zoom upward before, during World War II, only to see it fall rapidly when military demands decreased. They would naturally be reluctant to expand their facilities and work forces to care for a temporary gain in export employment.

Another reason for New London's different experience is the varying time periods involved in the New London and other studies. The same effects are not obtained over different periods even for the same community because of the wide range of causal circumstances which vary from time to time.

Not only was a different period used in the New London study, but the New London experience also

EMPLOYMENT
IN THE NEW LONDON LABOR MARKET AREA
1939 - 1953
THOUSANDS OF PERSONS
THOUSANDS OF PERSONS
Nonmanufacturing
Manufacturing
1939 1940 1941 1942 1943 1944 1945 1946 1947 1948 1949 1950 1951 1952 1953
SOURCE: EMPLOYMENT SECURITY DIVISION, CONNECTICUT LABOR DEPARTMENT.

covered a shorter span of years than other studies mentioned. Increases in local employment may lag behind gains in export employment over a relatively short period for a number of reasons.

It is also obvious that some manufacturing activity is carried on mainly to serve local demands. The exclusion of any manufacturing employment in the New London area from the local employment category would also reduce gains in local employment in comparison with areas where part of manufacturing employment was assigned to the local employment category.

Community Economic History is Crucial

Reactions to gains in export employment are likely to vary greatly in different communities. This is a result of factors such as the different ages of various communities, their disparate economic backgrounds, and differing rates of population growth. The varying experience in New London, Wichita, and Los Angeles provides convenient illustrations.

New London is a much older community than either Wichita or Los Angeles. In addition, its population growth has been much less rapid. Because of this, much less additional activity and consequent local employment was required in New London to provide such public facilities as water and gas mains, electricity and telephone lines, intra-city transportation, sewers, roads, schools, hospitals, libraries, parks, commercial and municipal buildings, and police and fire protection. Employment in the construction industry in New London rose only 45 per cent, from 932 to 1350, during the period studied. Construction employment in Wichita increased by 4,460, a gain of 157 per cent, during the study period.

A rapid gain in population is usually reflected in an increase in the number employed in trade and service industries to meet the demands of the new population. The population of the New London area, in expanding from 88,680 to 96,880, increased by nine per cent between 1950 and 1953. That of Los Angeles grew by 810,057, an increase of 30 per cent between 1940 and 1947. Wichita's population expanded from 143,311 in 1940 to 222,290 in 1950, a 55 per cent gain.

Part of the increase in employment in manufacturing and in trade and service industries in Los Angeles and Wichita could come from agricultural workers transferring to these industries. But New London did not have a sizable agricultural work force to draw upon. Much of the demand for new manufacturing workers in areas such as New London must be supplied by workers transferring from the trade and service industries — at least initially.

The small size of the New London area, compared to the Los Angeles and Wichita areas, and the relative nearness of New London to larger cities are also important differences. The New London area is not large enough nor is it sufficiently isolated from larger cities to contain all of the gains in local employment associated with a growth in export employment in the area. For instance, there probably are not enough wholesale trade firms located in the New London area to supply all or even most of the needs of the area. Many retail firms in New London are undoubtedly supplied by wholesalers in the nearby larger cities of Hartford, New Haven, Providence, and even Boston and New York.

The same line of reasoning probably applies to needs for financial, insurance and other services. The manufacturing industries located in the New London area would also be expected to obtain a smaller proportion of their supplies from other firms located in the area than manufacturers in Los Angeles and Wichita would obtain from the more widely diversified suppliers located in those areas.

This study supports the generalization that the larger the area, the greater its distance from other centers, and the more self-sufficient it is, the greater will the effects of a given increase in export employment on local employment tend to be.

Effects on Retail Sales

The existence of a general sales and use tax in Connecticut made possible a compilation of statistics on quarterly retail sales by towns and types of business.[4] This permitted analysis of the effects of a rapid increase in manufacturing employment on retail sales in the area.

The volume of retail sales may be expected to respond more sensitively than local employment to changes in export employment. An accompanying chart compares changes in retail sales, manufacturing employment, and nonmanufacturing employment in the New London area. It shows a closer correspondence between export employment and retail sales than between export employment and local employment.

Per capita income, retail sales, and ratios of retail sales to income are shown in an accompanying table for the New London area and the state for the 1950-1953 period.[4] Personal income rose steadily during this period in both the state and the area. Retail sales declined in relation to income, and more rapidly in the New London area, where the rate of income growth was greater. This behavior is consistent with the belief that changes in consumption lag behind changes in income.

The fourth chart isolates the New London aspects of the declining ratio of sales to income. The total height of the left-hand bars for each year shows actual sales in the area. The total height of the right-hand bars shows what New London's sales would have been had they taken the same proportion of area income as sales in the

[4]The procedure by which this was accomplished, with assistance from the Sales and Use Tax Division of the Connecticut Tax Department, is explained in technical notes to this study. A limited number of copies are available from the Federal Reserve Bank of Boston.

state took of income in Connecticut. The difference between the height of the two bars for each year summarizes the magnitude of New London's consumption differences from the state pattern.

PER CAPITA INCOME AND PER CAPITA RETAIL SALES IN CONNECTICUT AND IN THE NEW LONDON LABOR MARKET AREA, 1950–1953

	1950	1951	1952	1953
Per Capita Income				
Connecticut	$1785	$1997	$2087	$2201
New London Labor Market Area	1205	1416	1596	1667
Per Capita Retail Sales				
Connecticut	$1115	$1233	$1286	$1297
New London Labor Market Area	680	754	769	774
Retail Sales as a Per Cent of Income				
Connecticut	62.5%	61.7%	61.7%	58.9%
New London Labor Market Area	56.4%	53.2%	48.2%	46.4%

Another aspect of the situation is not so easily explained. Even though per capita income is smaller in the New London area than in the state, per capita retail sales as a per cent of per capita income were considerably less in New London than in the state. Assuming that the pattern of income distribution among individuals in New London is roughly the same as in Connecticut, these findings are not consistent with the theory that larger proportions of income are spent for consumption among low income groups than among higher income groups.

This raises the question of whether retail sales figures for the New London area represent all retail purchases made by residents of the area. If there is any appreciable amount of spending leakage outside the area, the observation of relatively low consumption in the area would be incorrect.

An analysis of the composition of retail sales in the area provides evidence against large amounts of spending outside the area by residents of the area. The analysis may be visualized by means of the components of the bars in the chart. An area which receives only a fraction of the purchases of its residents tends to sell larger proportions of food and smaller proportions of shopping goods such as furniture and apparel than does an area which receives most of the retail purchases of its residents. The composition of sales in New London does not indicate large amounts of spending leakage.

Another factor bearing upon low consumption in the New London area requires consideration. This is the leakage arising from the payment of wages to persons living outside the area. It is necessary to estimate whether this leakage is large enough to explain the low per capita retail sales in the area.

Through personal interviews, it was found that the more stable employers in New London do not recruit as large a proportion of workers from outside the area as does the Electric Boat Company, whose work force has fluctuated violently. It is likely, therefore, that persons who work in the area, but live outside of it, are employed largely by the Electric Boat Company.

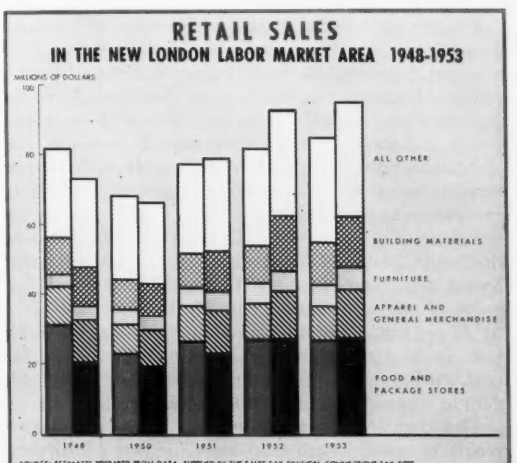
The Electric Boat Company paid about $5 million in wages in 1953 to workers residing outside the New London labor market area. This may reasonably be expected to result in the loss of about $3 million of retail sales in the area. A leakage of $3 million is not large enough to explain fully the unusually low proportion of sales to income in the New London area. Other reasons for leakage, such as spending outside the area by persons living in New London, were not quantified in this study.

Conclusions

The New London study shows some of the benefits which result from increased manufacturing employment. Even in a relatively short period, gains in manufacturing employment were reflected in increased income, retail sales, and local employment. But the response of local employment and retail sales to the doubling of export employment in the New London labor market area between 1950 and 1953 was not as great as might have been expected by the simple application of multiplier values determined for other areas.

The effects of an increase of export employment on local employment and other phases of local economic activity vary from community to community. Each case is unique. The results which occurred in one area cannot be applied to another area or even to the same area in a different time period. In each case, the effects depend upon the community's historical development, its immediate economic background, its own particular economic base and relationships with other areas, general business conditions, the type of industries involved, and many other independent variables.

A community can estimate the impact of industrial development only by a study of its own particular economy related to all other factors which may affect it. It cannot accept predictions which are based on dissimilar experiences of other communities. Studies of other areas are of value in demonstrating possible relationships and in suggesting methods that can be followed. They cannot, however, serve as a measure of the impact for another area with any precision.



The left-hand bars for each year show actual dollar sales in the area by category. The amounts in the right-hand bars are derived from total sales figures in the state. They indicate what sales in the area would have been if they had taken the same proportion of area income as state sales took of state income.

Monthly Review
FEDERAL RESERVE BANK OF BOSTON

CONSTRUCTION OUTLOOK

SPENDING for new construction broke all previous records in New England and the United States in 1954. The boom is still going strong and there are many indications that 1955 will be a big year — possibly another record year.

The $37 billion outlay for new construction in the nation last year was five per cent above the 1953 figure. The value of new work put in place exceeded the 1953 level in each of the 12 months and 1954 was the eighth consecutive year in which construction activity reached a new high.

Private expenditure, up eight per cent, accounted for practically all of the year-to-year increase in new construction. Most of the upward surge took place during the second half of 1954, chiefly because of the high volume of private housing started after the spring.

New construction in 1954 made up more than ten per cent of the total output of the national economy as measured by the gross national product. This is a higher proportion than in any year since 1928.

Approximately 1.2 million new nonfarm housing units were started during 1954 — ten per cent more than the number started in 1953. Private housing accounted for 98 per cent of the total as public housing dropped sharply from 35,500 units in 1953 to 19,400 in 1954.

The largest relative gains in private outlay were registered by commercial buildings, up 22 per cent, churches, up 25 per cent, schools, up 31 per cent, and social and recreational buildings, up 29 per cent. The expenditure for new manufacturing buildings was ten per cent lower than in 1953. Construction of farm buildings was also down ten per cent. Public utilities outlays remained substantially unchanged.

Public school building, up 20 per cent, highways, up 11 per cent, and sewer and water installations, up 13 per cent, registered the largest gains in dollar outlay for publicly-financed construction in the United States. Expenditures for public housing, military facilities, and public industrial facilities continued to register substantial declines. The gain in total expenditure for public construction from 1953 to 1954 amounted to less than one per cent.

Information supplied by F. W. Dodge Corporation discloses that the $1.4 billion of construction contracts awarded in New England during 1954 surpassed the value of the contracts awarded in the region in 1953 by 27 per cent. Hospitals, up 66 per cent, public buildings, up 55 per cent, and religious buildings, up 45 per cent, made the heaviest contributions to the 28 per cent gain in awards for nonresidential building.

The contracts awarded in 1954 revealed commitments to spend 33 per cent more for new educational and science buildings in New England than did those awarded in 1953. They also disclosed an *upward* trend in construction of manufacturing buildings. The dollar value of awards for this class of construction in the region was 40 per cent higher in 1954 than it was in 1953.

The 1954 total of contract awards for highways and other public works was 85 per cent higher than the year-ago figure for the region. For public and private utilities, the volume of awards was up 64 per cent.

In the early months of last year very few observers of the residential building program expected any expansion in New England's home construction. Nevertheless residential building awards were eight per cent higher than in 1953.

This gain occurred in the face of a drop of more than 50 per cent in the value of awards for the building of apartment houses. The $343 million value of awards for the speculative building of almost 31,000 one-family dwellings was 32 per cent above the corresponding 1953 figure. Awards for custom building of single dwellings rose eight per cent.

1955 Prospects — United States

Accomplishments in January give support to the widely-held view that the construction boom will continue during a substantial portion of 1955. The $2.8 billion outlay for construction put in place in the nation during the month was down less than seasonally from the December figure and was 13 per cent above the previous January high of last year. On a seasonally-adjusted basis it exceeded the $40 billion annual rate for practically the first time.

Private construction accounted for the whole January-to-January rise as public construction was almost the same as a year ago. Commercial buildings, churches, and schools continued to register substantial gains in the nonresidential building field. The largest single gain was in residential building. The expenditure of more than one billion dollars in this field of activity was 34 per cent above the amount expended in January, 1954. Schools, highways, and water and sewer installations stood out prominently among the types of public construction continuing to show year-to-year gains.

Most forecasts of the number of dwelling units to be started in the nation in 1955 vary between 1.2 million and 1.4 million. With minor exceptions, builders say they plan to put up as many or more houses in 1955 than they did in 1954. Mortgage funds are plentiful and terms, particularly since the enactment of the Housing Act of 1954, are easy. The increase in the population, the trend toward larger families, the migration to the suburbs, large incomes and liquid assets and other factors continue to stimulate the demand for new housing.

The United States Departments of Labor and Commerce forecast a rise of seven per cent to $39.5 billion in the value of all new construction put in place in the nation in 1955. They expect little change in the general pattern of construction activity aside from an accelerated rate of residential building and a reversal of the downward trend of recent months in construction of military facilities. Other information sources cite the large work backlogs for the construction of commercial buildings, schools, churches, public utilities, and highways as evidence of continuation of a high level of activity in 1955.

1955 Prospects — New England

In contrast to a year ago, New England builders

expect a rise in the number of dwellings that will be built and sold during the coming year. During January and February the number of residential building projects put under contract in New England rose 20 per cent above last year's level, and the valuation of contracts totaled $68 million, up 19 per cent from the same period of 1954.

Despite a feeling on the part of some lenders that activity during the last half of the year may be slower than in the spring months, they tend to agree that some ten per cent more houses will be built this year. Mortgage funds are expected to be ample and available on generally liberal terms. The evidence indicates that the major emphasis in homebuilding will fall in the $10,000 to $14,000 price bracket and that builders will concentrate on types of houses that increasingly choosy buyers will accept.

New England can look with confidence on prospects of an extremely active highway construction program probably running through the next ten years. The region's population is expected to increase by one million persons by 1965. This will strengthen the need for new school facilities and more suburban shopping centers. The movement of manufacturing and warehousing from down-town locations to outlying sites near new modern highways, and the growing popularity of the suburbs as places to live also suggest that construction will continue to constitute an important element of New England's economic activity during 1955.

PRICE REVIEW

STABILITY in all three standard price indexes has characterized the year 1954 and the early months of 1955, despite varying trends in the prices of specific commodities and services.

In February, 1955, the Wholesale Price Index of the Bureau of Labor Statistics was only fractionally below the level of January, 1954. The index rose gradually in the first quarter of last year, then declined slowly until fall. A gradual rise has taken place since October.

The over-all stability, however, obscures the fact that the wholesale prices of many industrial commodities have been rising gradually for more than a year, and increased production in the fourth quarter of 1954 gave impetus to this movement. The construction boom has brought prices of structural materials up nearly seven per cent between January, 1953, and early 1955. Prices of metals and metal products in that period rose five per cent, machinery and motive products, almost four per cent, and chemicals, three per cent. The price for rubber and rubber products in February reflected an increase over the levels in the same months of 1953 and 1954. World-wide demand has pushed up prices of natural rubber since spring.

Two major commodity groups have run counter to the trend, partially offsetting the gains of the other groups. Wholesale prices for hides and leather have dropped steadily since mid-1953, chiefly because of heavy cattle marketings which produced more hides than were needed by the shoe and leather industries. Prices for textile products and apparel leveled off during the past summer after declining for over a year.

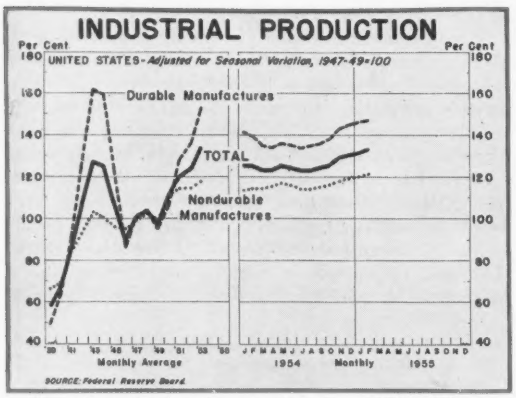
Dropping wholesale prices of farm products and processed foods during 1954 and early 1955 exerted the major down-pull on the index, however. Average prices of farm products were the lowest in five years and were more than ten per cent below the 1953 level.

Over-all stability has been evident even in the Index of Spot Market Prices. This index records daily fluctuations of 22 commodities sensitive to market conditions since they are in or near the raw material stage. In general it leads and fluctuates more widely than the Wholesale Price Index. By January, 1955, the index was three per cent above the level of a year earlier, brought up chiefly by rising metal and raw industrial material prices. In February and early March, however, this index dropped sharply in spite of rising business activity and uncertainty over the international situation.

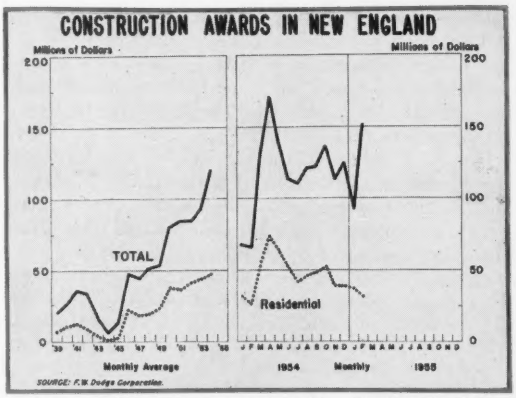
The consumer during the past two years has experienced little change in price levels. The consumer price index in February, 1955, was within one per cent of the February level in each of the preceding years. Since the middle of 1954, the index has moved slightly downward to the advantage of the consumer. Food prices declined more than two per cent over the year, following drops in wholesale food prices. Apparel and transportation prices likewise declined, but increases in costs of medical care and housing counteracted these drops.

Competitive markets have kept most manufacturers from raising prices, despite increased costs of industrial materials. The consumer was price-conscious, although he had a larger income at his disposal in 1954 than ever before. The consumer price index does not fully account for the many discounts given the 1954 consumer on such purchases as electrical appliances and automobiles. But in its stability, the index does reveal the pressures of competitive markets which have kept price levels from rising.

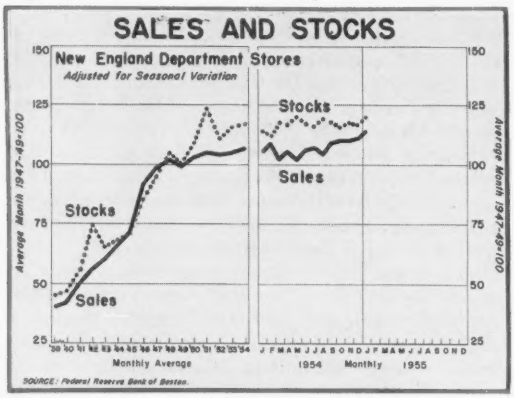
Business Conditions



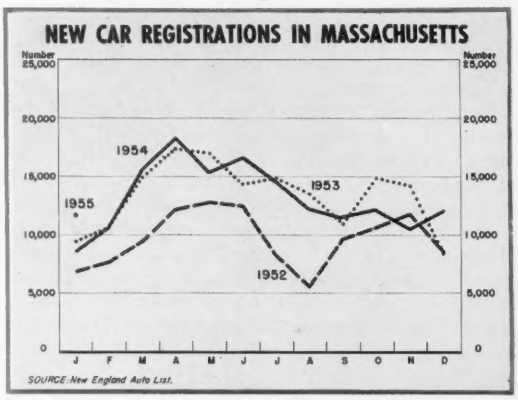
The adjusted index of production rose to 133 in February, six per cent above the level of a year ago. Durables were up three per cent from the December level led by automobiles, primary metals, and household goods, and nondurables rose two per cent.



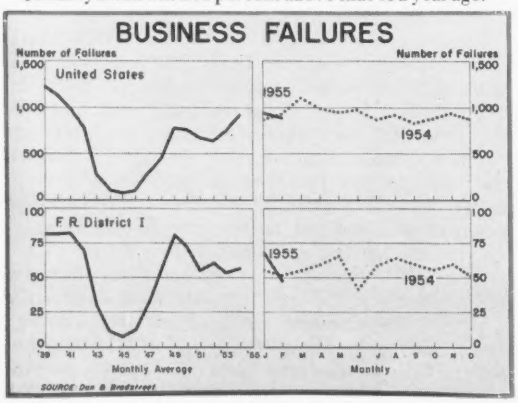
Construction contract awards in New England in February were 128 per cent above the level of a year ago. For the first two months of 1955, total awards were 80 per cent above the January-February total in 1954. Greatest gains occurred in public works awards.



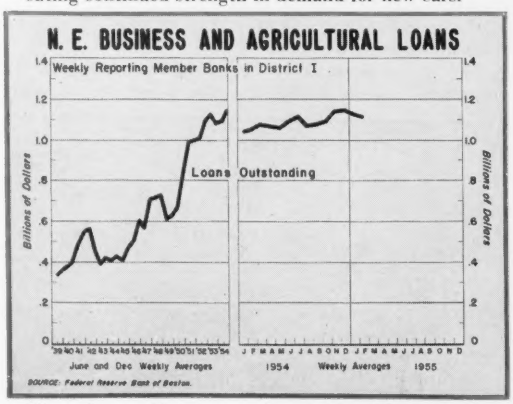
The adjusted index of department store sales in New England in January was nine per cent above the level of January 1954. Stocks in the month rose to a level equal to the peak for 1954 which occurred in June. The January index was five per cent above that of a year ago.



New car registrations during February totaled 27 per cent more than the number registered in Massachusetts in February 1954. The monthly total represented a 15 per cent increase over the previous month, indicating continued strength in demand for new cars.



Failures in the district declined in February from the highest point in January in over a year. The 1954 total was above the 1953 level but well below that of 1949 and 1950. Nationally, however, more failures occurred last year than in any year since 1941.



The volume of business and agricultural loans in the district increased almost steadily in 1954 in contrast with the national pattern. In early 1955 the volume decreased somewhat, but the February level was still above any month in the first half of 1954.